

As the debate in the Senate continues on [financial regulatory reform](#) , I wanted to alert you to one glaring omission in the Democrats' 1,300 page bill: It does nothing to reform Fannie Mae and Freddie Mac, two companies at the heart of the financial crisis.

These entities were created by the government to help create a market for moderate- and low-income homeowners. Their implicit government backing allowed them to borrow at lower rates and hold less capital than fully private corporations. Their favored status also signaled that their securities were as safe as U.S. Treasuries, attracting huge amounts of capital from around the world to the U.S. housing market, creating demand for untraditional mortgage products and turbocharging the housing bubble. When housing prices began to decline substantially and the market collapsed, Fannie and Freddie did not have the capital to fend off the large number of loan defaults that followed. The result: the federal government had to take over these two entities, putting the American people on the hook for over \$5 trillion in mortgage liabilities that are twice as leveraged as the failed investment bank, Bear Sterns.

Last week, Fannie Mae reported its 11th consecutive quarterly loss of \$11.5 billion and asked for another \$8.4 billion in taxpayer assistance. That came on the heels of Freddie's request for \$10.4 billion in further government aid, bringing the total government bailout to \$145 billion so far. But this is only the tip of the iceberg. The nonpartisan Congressional Budget Office estimates that the toxic duo will cost taxpayers \$380 billion through 2020. In response, the Obama Administration in December 2009 unilaterally eliminated the \$400 billion limit on government assistance to these entities, signaling its expectation that the bailout will exceed that level and put even more taxpayer money on the line. One thing is clear – the Fannie and Freddie bailout will be the most expensive legacy of the U.S. financial crisis, and the Administration's insistence on an open-ended bailout is absolutely unacceptable. Yet, Senate Democrats' regulatory reform bill fails to provide these entities with the same level of oversight and accountability that it applies to other participants in the secondary mortgage market, such as Goldman Sachs.

The Senate had the opportunity last week to correct this startling omission and legitimately address the causes of the crisis and protect taxpayers. Senator John McCain offered an amendment to the finance bill that would have ended the government control of Fannie and Freddie within 30 months, reinstated the cap on government assistance, shrunk their portfolios, increased their capital requirements and underwriting standards, and eventually shut down the failed enterprises. Amazingly, this amendment failed by a vote of [43-56](#) . Senate Democrats countered this serious attempt to reform the money-losing government owned companies by requiring the Treasury Department to further "study" Fannie and Freddie. But we don't need another study. We need to get tough on Fannie Mae and Freddie Mac and take a strong stand

on protecting taxpayer dollars. I have always been a strong advocate for tough oversight of Fannie and Freddie, supporting legislation in 2005 that would have created a regulator with teeth to ensure the safety and soundness of these entities. Real financial reform is a pipe dream unless Congress finally gets serious about addressing the root problems of our financial system.